



MEMORANDUM OF UNDERSTANDING

between

THE EUROPEAN COMMISSION,

THE EUROPEAN INVESTMENT BANK
together with the EUROPEAN INVESTMENT FUND,

and

**THE EUROPEAN BANK FOR RECONSTRUCTION AND
DEVELOPMENT**

in respect of

COOPERATION OUTSIDE THE EUROPEAN UNION

1. Introduction

The European Commission (EC), the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), the latter two together referred to as the "Banks", have a long tradition of cooperation since the early 1990s. This cooperation has supported countries in Central and Eastern Europe (CEE) in their transition towards open, market-oriented economies, and substantially helped them in their progress towards EU accession or partnership.

The present Memorandum of Understanding (the "MoU") replaces the existing Memorandum of Understanding on Cooperation in Eastern Europe and the Southern Caucasus, in Russia and in Central Asia (of 15 December 2006) as well as the Accord in respect of Cooperation in Turkey (of 15 January 2009). The cooperation between the Parties under this MoU will be implemented while taking due account of, and without prejudice to, other existing agreements entered into jointly or separately by the Parties, which relate to investments outside the EU.

The EIB and the EBRD operate under different mandates. The EIB, the bank of the European Union, primarily focuses on EU economic development and integration through its financial operations, the majority of which are in the EU member countries, Pre-Accession region and Neighbouring countries.

The European Investment Fund (EIF), a European financial institution forming part of the EIB Group, provides risk finance to small and medium-sized enterprises (SMEs). EIF fosters the implementation of EU policies, notably in the fields of entrepreneurship, technology, innovation and regional development.

The EBRD, a multilateral development bank, supports the transition process in Central and Eastern Europe including: CEE countries which are EU Member States; the Western Balkans and Turkey; Eastern Europe and the Caucasus countries; Russia; Central Asia and Mongolia. In the context of their specific and different mandates, both Banks cooperate, focusing on complementarity, additionality and efficient use of their respective capital resources.

It is of particular importance for the EU to promote enhanced cooperation between International Financial Institutions such as the EIB and EBRD. Such strengthened coordination should help support progress towards the fulfilment of EU external policy objectives in the countries where both Banks operate. These objectives are laid out in particular in the Pre-Accession Strategy, Stabilisation and Association Process, the European Neighbourhood Policy and the Eastern Partnership, the EU Strategy for Central Asia, and the EU's Strategic Partnership with Russia. These policies are also supported by the financial instruments managed by the EC, including the Instrument for Pre-Accession Assistance (IPA), the European Neighbourhood and Partnership Instrument (ENPI), the Development Cooperation Instrument (DCI), and the Instrument for Stability. In this context, the EC has developed, in cooperation with the EIB, the EBRD and other European financial institutions, several facilities providing grants for blending with loans, such as the Western Balkans Investment Framework, the Neighbourhood Investment Facility and the Investment Facility for Central Asia.

In the aftermath of the financial crisis, the challenges faced by the beneficiary countries of both Banks are considerable. Against this backdrop and in the context of the strategic reflection occasioned by the Mid-Term Review of the external mandate of the EIB and by the EBRD's Fourth Review of Capital Resources, the EC, the EIB/EIF and the EBRD wish to set out a new framework for cooperation outside the EU that seeks to enhance the combined impact of the two Banks' respective operations, in the interest of beneficiary countries and of the respective Banks' shareholders.

The present MoU sets out such a framework, taking into account the conclusions concerning cooperation between EIB and EBRD in the European Parliament resolution of 25 March 2009 on the 2007 Annual reports of the EIB and the EBRD.

2. Key principles

The following are key principles on which the cooperation under this MoU would be founded:

- The EC, EIB (together with the EIF) and EBRD support the principle of enhanced IFI cooperation and the need to ensure strong coordination, so as to exploit synergies and to leverage respective core competencies and comparative advantages, in the common countries of operation outside the EU. This should, inter alia, contribute to advance EU policy objectives.
- EIB (together with the EIF) and EBRD would improve the “functional division of labour”, in a flexible way, in order to focus on respective skills and strengths.
- EIB (together with the EIF) and EBRD will promote a culture of collaboration, openness and mutual trust between the staff of the two Banks, and will promote adequate communication with their respective governing bodies and with the public at large.

3. Mandates and business models

The EIB is the house bank of the European Union, owned by the 27 Member States. Outside the EU, the EIB operates on the basis of specific mandates from the Council and the European Parliament or at its own risk in compliance with its Statute. The EIF operates on the basis of specific mandates from the Council and the European Parliament, from the EC or other public authorities, from the EIB or at its own risk. The EIB business model is based on three pillars of value-added: (i) consistency with EU policies, support for the EU priority objectives and EU policy dialogue with partner countries; (ii) project technical, economic, environmental and social appraisal and conditionality, and (iii) EIB financial and non-financial contribution to the project. The EIB transfers the financial advantage of its funds to the beneficiaries, and leverages additional finance from the public and private sector.

The EBRD shareholders include EU Member States, the EU, the EIB, as well as countries of operation and other non-EU countries. The EBRD mandate, in contributing to economic progress and reconstruction, is to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in CEE countries committed to and applying the principles of multiparty democracy, pluralism and market economics. The EBRD business model is based on a high risk-taking capacity, policy dialogue and conditionality, market-based pricing, and leveraging additional finance from the private sector.

Since the EIB and the EBRD have partly a different set of shareholders, distinct mandates and specific business models, it is acknowledged that this implies also full operational independence in common countries of operation, which calls for the enhanced cooperation set out in this MoU.

The two Banks will cooperate across all EBRD countries of operations outside the EU which is the scope of this MoU.

4. Framework of EIB-EBRD cooperation outside the EU

The framework of EIB-EBRD cooperation is based on the distinct and complementary mandates and business models of each Bank set out in Section 3 above.

The operations of the respective Banks in the common countries of operations outside the EU can be grouped into three areas:

- 4.1 Areas where there is no common activity, thus no scope for cooperation;

4.2 Areas of differentiated emphasis: both Banks are active but with a differing emphasis based on respective core competencies;

4.3 Areas of strategic cooperation: priority areas for transition and for EU policy: cooperation to be pursued at the strategic level and/or project level, as appropriate.

In the areas identified for cooperation (as outlined in the annex) which may evolve based on respective mandates, the two Banks will work closely together on the basis of early information exchange and identification of opportunities for coordination at portfolio level and co-financing at project level in a pragmatic way respecting each other's mandate and policies as well as the different relative core competences across regions and sectors.

Where the EBRD or the EIB/EIF identify a specific project covered by categories 4.2 and 4.3 of this MoU, the Party concerned will inform the other Party of its interest in financing the project. In such cases, the Banks will consult over how best to address the needs of the client, having regard to the particular knowledge and expertise of the Banks as well as to their existing client relationship. Consideration will also be given to whether co-financing of the project would be appropriate.

In this context, where the EBRD and the EIB/EIF agree to co-finance a project, the Banks will consider issues related to the respect of one another's standards, in particular in the areas of integrity, transparency, corporate governance, accounting standards, environment and procurement, the possibility to submit their offer to the client under a joint proposal and as a joint package, and the possible efficiency of leaving one institution in the lead and of sharing its due diligence with the other. In co-financed projects the Banks will provide reciprocal transparency with respect to their pricing policy and risk capacity in relation to their respective financial participation in the project.

Once a business relationship in terms of a specific project with one of the Parties has already been established, the other will behave in a way that will not impede this engagement.

4.1 Areas of separate activity

There are some areas of EBRD intervention in which the EIB is not active and does not currently plan to be so: these include direct support (debt and equity) into the financial sector, direct corporate equity, trade finance, upgrades to nuclear safety, and the business advisory method of Turn-Around Management and Business Advisory Services (TAM/BAS). At the same time, there are areas of EIB intervention in which EBRD is not active and does not currently plan to be so: these include public health, education and the social sector.

Decisions to change these areas belong to the respective shareholders. Nevertheless, as far as possible, any changes would be the subject of prior discussions between EIB and EBRD.

4.2 Areas of differentiated emphasis

In the following areas of common operations the Banks have differing emphases in focus, but may cooperate at the intersection of their operational strategies.

- Financial sector and intermediated finance: The IFI Joint Action plan has demonstrated the potential for good cooperation in the context of the financial crisis. The EBRD will focus on providing support to financial institutions and capacity building of final beneficiaries as well as supporting through financial intermediaries the real economy, notably SMEs, and the EIB will focus on providing support through financial intermediaries to the real economy, notably SMEs.

Consequently, cooperation in this sector will be concentrated on providing support through financial intermediaries to the real economy; cooperation will be predominantly at sector level.

- Corporate sector: co-financing will be considered when needed to share expertise or credit risks for counter-party limit management. EBRD will focus on transition (support to local enterprises and privatisation investments, as well as foreign investments and higher risk: equity), while EIB will give non-exclusive priority to support of EU Foreign Direct Investment as well as larger investments arising from privatisation (under own risk facilities or as set out in the mandate). Consequently, cooperation in this sector will be concentrated on lending in support of foreign direct investment. Co-financing at project level may be envisaged where appropriate, for example for larger projects.
- Infrastructure (energy, environment, telecoms and transport): EIB will give priority to the extended Trans European Networks (TENs) and support notably larger operations as well as municipal infrastructure; EBRD will focus more on smaller and non-sovereign operations, including municipal infrastructure, while also supporting larger infrastructure investments with transition impact, including the TENs. Consequently, cooperation in this sector will be concentrated on the financing of extended TENs and municipal infrastructure. Co-financing at project level may be envisaged where appropriate.

4.3 Areas of strategic cooperation

Areas for strategic cooperation include:

- Climate Change Mitigation and Adaptation: This will continue to grow as a strategic priority. Both Banks have established expertise in the area, including support to renewable energy and energy efficiency projects, thus the two Banks will consider as a priority for their cooperation to support climate change mitigation and adaptation in all common countries of operation.
- Energy Security: This is increasingly becoming a priority for the EU and therefore, there is a need for EIB and EBRD to continue to work together on these politically and technically complex deals.

In these areas, the two Banks would closely cooperate at sector level, and explore all suitable possibilities for project co-financing.

4.4. Modalities for operational cooperation

Within categories 4.2 and 4.3 the two Banks will exchange information every two months through the Contact Group set up under point 5 below, notably on the project pipeline covering all potential areas of co-operation at the earliest possible stage. To that effect streamlined procedures will be developed by the respective operational teams, having in mind the nature and timing of Preliminary Information Notes (EIB) and Concept Reviews (EBRD).

In general, where there is an agreement to pursue co-financing, a "lead IFI" will be identified at the earliest possible stage based on the principles outlined under point 4.2, and taking account of the Bank which has originated the project, the one which has already an established relation with the promoter/borrower, and of the relative fit of the operation with the respective mandate and business model as described under point 3. Within the overall framework, and recognising differences across regions, it is envisaged that EIB and EBRD will play a balanced role as co-financiers.

When co-financing projects, the Banks will endeavour to maximise value added for the clients, notably by closely co-ordinating due diligence and by sharing results, wherever possible and in a reciprocal way, under "mutual reliance" arrangements under the "lead-bank" approach.

Mutual reliance based on mutual recognition of procedures and standards and - to the extent possible, in particular for pre-accession and neighbourhood countries- harmonisation of standards (including on procurement and environment) will be pursued and developed to provide the building blocks for intensified cooperation, which both Banks recognise as an important element to enhance the efficiency and impact of joint operations. The possibility for reliance on project due diligence (excluding credit

assessment) of one Bank on the other should be considered in the interest of maximising the impact of combined resources. Contact persons will be identified to develop mutual reliance.

Good cooperation between respective services is at the heart of good inter-institutional cooperation. For this purpose, both Banks would provide sufficient staff resources to carry out project processing and implementation of their respective financing contributions within timetables agreed at the outset. In addition, increased exchange of staff, including with the EC, should be actively promoted.

Possibilities for cooperation in lending in local currency will be further explored in cooperation with beneficiary countries.

5. Coordination and supervision

The two Banks together with the EC will form a Steering Committee, chaired by the EC, whose objective will be the overall coordination and supervision of institutional and operational cooperation, to share experience and to maximise synergies in policy support, financing, and grant funding. This Steering Committee will meet twice yearly at senior management level to ensure good cooperation towards these objectives and to discuss sectoral and regional issues of relevance to the implementation of this MoU. In particular, there will be upstream coordination to identify potential opportunities and difficulties in cooperation arising from the respective mandates and policies of the Parties.

Representatives of the European External Action Service (EEAS) will be invited to participate in the meetings of the Steering Committee.

Whenever appropriate, within the scope of the present MoU, the members of the Steering Committee will liaise with the relevant services in their respective institutions with a view to promoting smooth cooperation and appropriate decisions regarding matters arising in the context of the MoU.

A light operational Contact Group composed of staff of the two Banks will be set up for the regular follow up of operational cooperation between the Banks as defined under point 4.4 above including exchange of pipelines of operations and other issues of operational relevance to the implementation of this MoU. The Contact Group will regularly report to the Steering Committee on pipelines of operations and on specific operational issues that may arise. Representatives of the EC will be invited to the meetings of the Contact Group when appropriate, notably in cases where financial support from EU funds is envisaged.

There is also a clear need to optimise synergies and leverage from budget-based resources to support the respective mandates whether from the EU budget or from the Member States / Shareholders funds. EU loan-grant blending mechanisms in various regions bring significant value added in support of EU policies and provide for enhanced coordination between EIB and EBRD, as well as with other European Financial Institutions, on pipelines and co-financing opportunities in combination with technical assistance or investment grants.

The EIB and EBRD will cooperate and not compete on their requests for grants, and will work together and with the EC to ensure that grants are used efficiently and transparently. In this context, joint funds for grants or coordinated financial products for common areas may be further developed with a view to streamlining resources and maximising the combined leverage of EC, EIB and EBRD financing.

Coordinated communication and joint efforts to promote visibility of common operations and initiatives will be ensured.

This MoU will be reviewed every two years, the first review to take place at end March 2012. The MoU will remain in place during such reviews.

Any Party to this MoU has the right to withdraw at any time by giving written notice to the other Parties. This MoU is also subject to possible revisions at the request of any Party as well as depending on the outcome of strategic reviews of the two Banks and any eventual change in the scope of their operations.

Brussels, this _____ day of _____

Signed for and on behalf of
EUROPEAN COMMISSION

Signed for and on behalf of
EUROPEAN INVESTMENT BANK
EUROPEAN INVESTMENT FUND

Olli Rehn
Commissioner for Economic
and Monetary Affairs

Philippe MAYSTADT
EIB President
EIF Chairman of the Board of Directors

Signed for and on behalf of
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Thomas Mirow
President

Areas of common operation of EIB and EBRD outside the EU

Regions of common operation of EIB and EBRD outside the EU

1. Pre-Accession countries (Western Balkans and Turkey)
2. Eastern Neighbours (6 countries) and Russia
3. Central Asia (5 countries)
4. Mongolia

Common sectors of operation of EIB and EBRD

1. Energy infrastructure and energy security
2. Climate change and environment (including renewable energies, energy efficiency and municipal infrastructure)
3. Transport infrastructure
4. Telecom infrastructure
5. SMEs
6. Corporate / industry

Type of instruments in the regions of common operation of EIB and EBRD

EIB: Direct lending, Risk-sharing schemes, Equity funds, Framework loans (small-medium amounts), Credit lines via intermediaries (small-medium amounts), Guarantees, Technical assistance (EC and MS grants).

EIF (Pre-Accession): Equity via funds, Guarantees.

EBRD: Direct lending with syndications, framework loans; credit lines via financial intermediaries; Equity (direct participation and equity funds), guarantees and risk sharing schemes; Trade finance; Technical Assistance and other grant funded co-financing instruments (EC, donor grants).